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IN THE

Supreme Court of the United States

No. 71-1649

A-T-O INC. *et al.*,
Petitioners,

v.

SPERRY RAND CORPORATION,
Respondent.

REPLY

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REPLY

The Response does not actually take issue with the matters raised by the Petition, either by showing a contradiction to the operative facts as found below or by citation of any decisions of opposed authority. The Response cites neither fact nor law to show that the antenna design and manual were not in the public domain nor does it even assert that any residual property right to those materials remained in Sperry after the 1963 sale to the Coast Guard.

Instead the Response pleads two grounds of avoidance on the law, first, that "none of the three legal contentions presented by the Petition for Certiorari was made by the petitioners either in the District Court or the Court of Appeals" (Resp. 3), and second, that the trade secret award of the District Court became moot by reason of a partial reversal on damages by the Court of Appeals (Resp. 4). The record is clearly to the contrary on both points.

In lieu of any available contradiction of relevant fact from the findings, the Response—in violation as Petition-

ers see it of this Court's Rule 40(5)—relies instead on a prejudicial *ad hominem* argument of repeated accusations of theft and other illegality against the two engineer defendants, and an 'exhibit' of three pages copied from Sperry's own brief before the appellate court, an argument in support of a misappropriation theory of tort liability which was rejected as a cause of action by the District Court (Jt. App. A 49, A 57) and as a basis for liability by the Court of Appeals (Pet. B-10).

I

The Question of the right to copy materials in the public domain was raised below.

The first legal contention of the Petition is that six Circuits including the Court below have continued the use of common law rules of unfair competition in the trade secret area to penalize the copying of materials which are in the public domain under the federal patent laws and the rulings of this Court. This issue arises from the unpatented and uncopyright character of the antenna design and operators manual, the prior patenting of the design by a stranger to the litigation, and the commercial sale of both items over a period of years with the resulting absence of any 'trade secret' protection under this Court's rulings in *Sears* and *Compco, Lear* and others.

As the best evidence of presentation of this issue below, both Courts in their opinions noted from the record the unavailability of patent protection to the Zentmeyer antenna design because of anticipation by the prior art, (Pet. A-18, B-4), the trial court made findings on the commercial sale of the radars (Pet. A-9), and public display of the manual, (Pet. A-13), the Byers and Katchky anticipating patent was made a trial exhibit, (DX-208, R.V:197), and the *Van Prod. Co.* v. *Gen'l Welding* decision, 213 A. 2d 769 (Pa. 1965) was urged upon the trial court as the legal measure of the right of a former employee to

re-use his own unprotected design in subsequent employment (Def. Prop. Concl. of Law, R.V.:95). On appeal the circuit court's attention was specifically called (Appt. Bf. p. 24) to the *Van Products* footnote citation of *Sears* and *Compco*, (pp. 778-9), as authorities in point. Despite primary emphasis by petitioners in both lower courts on contradictions in the factual record, it is a clear distortion of the matters known to Sperry to suggest that this legal issue was not raised below.

On the law, the Response concedes that the Circuit opinions cited in the Petition sustain the applicability of state trade secret rules to prevent the copying of unpatented materials (Resp. 5). The parties disagree only as to their reading of this Court's decisions, Sperry denying the concept of federal pre-emption by asserting that this Court "had no intention in *Sears* and *Compco* of overturning by implication the fundamental principles of business morality underlying the law of trade secrets . . ."

On the present immediacy and substantiality of the conflict between *Sears-Compco* on the one hand and state trade secret rules on the other, petitioners further note that the same question is now pending decision before the Sixth Circuit after being twice argued, *Kewanee Oil Co.* v. *Bicron*, (Nos. 71-1041, 1042) and that analogous claims in two copyright cases are now pending on this Court's docket, *Goldstein*, No. 71-1192, and *Rosner*, No. 71-1551. Certiorari was granted in *Goldstein* on May 30, 1972, 40 USLW 3568.

II

The exclusive right of the Coast Guard to a design and a manual purchased under contract was asserted below.

The second legal contention made in the Petition was that the radar design and manual became the property

of the Coast Guard under the 1963 contract, and Sperry had no residual property right in law which would allow it to penalize and enjoin their copying by a competitor for a reprocurement by that agency or collect for itself an award for such copying. The opinions below are silent on the point. However to Sperry's obvious knowledge, this issue was presented to the trial court as Proposed Finding No. 66 (R.VII:34)

> The claimed trade secrets are not in any event the property of plaintiff. Based on the development nature of the 1963 Coast Guard contract as calling for the AN/SPS-53 design and the absence of any limiting condition in the contract itself, the AN/SPS-53 design including the antenna was and is the property of the United States Coast Guard and that agency accordingly would be the only proper claimant for any asserted misuse of such designs.

This contention was then repeated by petitioners before the Court of Appeals (Appt. Bf. p. 52)

> Sperry's 1963 bid was unrestricted, (A190), and we know of no statute or regulation reserving any rights to Sperry in the SPS-53 array design even though the legal basis of this suit assumes their enforceable property right in that design. When a design has been sold without restriction, the designer has "no further monetary interest" in it, *Vargas* v. *Esquire, Inc.*, 164 F. 2d 522 (7th Cir. 1947).

The Response concedes that the 1963 Coast Guard contract was for the *design* of the radar, and denigrates the hitherto valuable Sperry manual as one limited to "trouble shooting and emergency repairs", (Resp. 5). No claim of residual property in either is asserted or supported.

Instead, the Response denies Coast Guard ownership of "manufacturing" drawings and of a miscellany of

items from the Zentmeyer cartons although neither of these was the subject of the 1963 contract or of the Petition. The manufacturing drawing of Sperry for the SPS-53 antenna was redrafted with changes after Zentmeyer left (Pet. A-11) and is in the record as PX-90, (R.VI:1(12)). The manufacturing drawing of ECI for their version of the antenna is PX-91 (R.VI:1(12)), conceded by all experts to be a substantial redesign (Jt. Appx. A-86, 137, 138, 148, 163-5, 324-325, 334) but held by the District Court to have been "generated with direct reference to Sperry material," (Pet. A-12).

It is evident on the record that the misuse award was not the physical misuse of "manufacturing" drawings or notes and scraps of an antenna engineer, it was the use of a design concept and a manual which are now conceded to be the property of the Coast Guard.

To the extent that the argumentatively described items on Sperry's "Exhibit A"—or any of the many hundreds of other unremarked pages in the two cartons of paper that Zentmeyer had after five years at Sperry—have significance in contributing to the design of the ECI SPS-53 antenna, the relative rights of the original patentees, Byers and Katchky, the public, the Coast Guard or Sperry are determinable under federal patent law as discussed in the Petition. To the extent they do not contribute to that design, they fall outside of the ambit of the review sought and are simply an exercise in misdirection.

III

The abuse of discretion on the award of damages was argued below.

The third legal issue presented by the petition was whether affirmed awards totaling $400,000 for a claimed misuse of property showing a book cost around $1,000 has not sanctioned such a departure from the usual course

of judicial proceedings as to call for the exercise of the supervisory powers of this Court.

Since both opinions below (Pet. A-14-19, B-7-13) are largely concerned with the scope of damages for the alleged misuse of the antenna design and manual, the raising of the issue in the courts below is self-evident on the record. Even as to the specific amount, the cost-award comparison was raised in both courts:

> The time charges of Zentmeyer for the AN/SPS-53 preliminary design appearing in PX-38 were $922.02 (Prop. Fdgs., R.VII: Damages 2(3), p.4)

In the Court of Appeals (Appt. Bf. p. 53-54) petitioners listed Sperry's own charges for the nine antenna designs in the record, pointed out that the four antennas designed by Zentmeyer at Sperry had record design costs between $900 and $4600 and stated

> The damages of $175,000 are meaningless on the evidence and the contrast of this sum to the demonstrated cost of designing a slotted array can only be read as a punitive declaration by the District Court.

The assertion of Sperry to this Court that the point was not raised below is clearly baseless.

IV

Liability for trade secret misuse was affirmed by the Court of Appeals. The issue was not mooted by a partial reversal for the reassessment of damages.

The Response also argues that the three points of the Petition go solely to damages for "misappropriation of its antenna design", and that this question is moot (Resp. 4), since "the Court of Appeals has already vacated the trial court's award of $175,000 for misappropriation of all the items in Appendix A hereto including the antenna design". Respondent misreads the opinion below.

In the ambiguity of language in the District Court opinion, it is difficult to say whether the District Court made its award of $175,000 on its finding of *misappropriation* of broadly described "materials and data" (Pet. A-11) or on the basis of their *misuse*. To that extent the Court of Appeals properly reversed the holding of the District Court since the applicable rule of liability in Virginia and elsewhere arises from a specified misuse.

On that basis the Court of Appeals necessarily held that the $175,000 and $231,000 were 'duplicate' items of damages—as in fact the Response acknowledges (Resp. 3). There was expressly no reversal as to liability, (Pet. B-2). The misuse criterion was explained by the Circuit Court (Pet. B-10)

> Double recovery for Sperry Rand cannot be justified on the theory that defendants committed two separate acts giving rise to liability on their part, i.e., misappropriation of general proprietary secrets and misappropriation of bidding data and bidding price. Under the facts of this case, both of these objects of misappropriation were used in combination to inflict a single specific wrong, i.e., underbidding Sperry Rand and depriving it of the Coast Guard contract which it would otherwise have been awarded. Thus, the item of $175,000.00 must be disallowed.

The combining of all elements of misappropriation as a single ground of misuse is equally evident in some of the findings of the trial court. As the trial judge saw it, it was ECI's possession of the antenna design which enabled it "to submit a bid in competition with Sperry" (A-11). This coupling of the use of the antenna design with the described finding of price passing as a single tortious act is repeated later in the opinion:

> materials and data misappropriated . . . coupled with the Court's finding that Tebell, pursuant to the conspiracy existing between him and Zentmeyer,

> conveyed to Zentmeyer information regarding Sperry's proposed bid figure, making it possible for ECI to, as they did, submit a lower bid. (Pet. A-13)

In short, both Courts saw the combination of price and antenna design misuse as a single cause of Sperry losing the Coast Guard bid. Accordingly the additional "misappropriation" award of the trial court was clearly duplicative, whether damages were measured by the asserted design advantage of $175,000 to ECI or the equivalent contract loss to Sperry.

Moreover the two charges of misappropriation, data and price, are indissolubly related in the facts as found. On the price question the trial opinion is clear that the finding of misappropriation of 'proprietary data' was also the essential element of the circumstantial determination of price passing. The trial court conclusion that a 'conspiracy' existed between Tebell and Zentmeyer—and therefore that Tebell must have known Sperry's price and given it to ECI—was primarily based on the conceded fact that Tebell had given one of his manual copies to Zentmeyer (Pet. A-12) and that ECI intended to and did keep its intention to bid secret from Sperry. Granting that the District Court saw that action and motive as an immoral and unjustifiable wrong to Sperry, petitioners know no reason in law why the manual was not open to any bidder to use or why ECI was under any obligation to forewarn Sperry of its intention to compete for the Coast Guard business. As the District Court correctly noted, Sperry had access to Coast Guard records, "would have been forewarned" if ECI had used the publicly displayed equipment and manual, and would have—as it surely could have as the dominant producer—underbid ECI for the contract, (Pet. A-13).

The affirmed award of $231,012 for misuse includes damages for all claims of misappropriation of Sperry's trade secrets. Contrary to the assertion of the Response,

the issue was not mooted by any reversal on damages by the Court of Appeals.

CONCLUSION

As set out in the Petition, the existence of a growing conflict between the holdings of this Court and those of the Courts of Appeal on the use of the various State trade secret laws to extend the scope of the federal patent privilege, and the unadjudicated question of the title of the United States to designs purchased from a government contractor, raise special and substantial questions of law of immediate and continuing importance which should be settled by this Court. The Response to the Petition neither denies the operative findings of fact which raise these issues, nor does it present any legal ground of avoidance against their determination on this application.

Respectfully submitted,

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